CPP ANNUAL USE OF CAPITAL SURVEY - 2010

NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Alliance Financial Services, Inc. and subsidiary, Alliance Bank

Point of Contact:	Stephen Byelick	RSSD: (For Bank Holding Companies)	1127146
UST Sequence Number:	1253	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	12,000,000	FDIC Certificate Number: (For Depository Institutions)	10973
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	June 26, 2009	City:	Saint Paul
Date Repaid[1]:	N/A	State:	Minnesota

[1]If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

X **Increase lending or reduce lending less than otherwise would have occurred.**

Alliance Bank (the"Bank") made $79.1 million in new loans and renewed $165.8 of existing loans in calendar year 2010. Without the CPP funds the bank would have ceased making new loans and would have reduced renewals significantly.

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☐ **Increase securities purchased (ABS, MBS, etc.).**

☐ **Make other investments.**

X **Increase reserves for non-performing assets.**

Since receiving the CPP funds the Bank has increased its allowance for loan losses from $9.1 million at June 30, 2009 to $19.1 million at December 31, 2010. Provisions for loan losses were $13.8 million in 2010 and $14.8 million in 2009. Other real estate write downs in 2010 were $1.3 million.

X **Reduce borrowings.**

Upon receipt iof the CPP funds in 2009 the funds were depoisted in the Bank and used by the Bank to pay down advances from the Federal Home Loan Bank.

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X **Increase charge-offs.**

Net charge offs were $7.1 million in 2010 and $8.9 million in 2009 million after receipt of the CPP funds. CPP funds allowed the Bank to take these large charge offs and still maintain strong regulatory capital ratios.

☐ **Purchase another financial institution or purchase assets from another financial institution.**

X **Held as non-leveraged increase to total capital.**

$6 million of the CPP funds were added to the Banks capital to strengthen its regulatory capital levels during this period of high charge offs due to the economic downturn. The remaining funds were retained at the Holding Company to provide a source of capital strength for the Bank.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

Without the CPP funds the Bank's December 31, 2010 Tier I capital ratio would have been 8.10% instead of 9.57% and the Total Capital to Risk Based Asset ratio on the same date would have been 10.14% without the CPP funds instead of 12.12%. with the CPP funds. The Bank's ability to maintain strong regulatory capital ratios allowed the Bank to lend to new customers in the market areas it serves and to renew existing customers' loans and thereby retain those customers.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

The Bank was able to make $79.1 million in new loans and renew $165.8 million in existing loans.

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.